

City of Houston General Fund Five Year Planning Scenario

Presentation to Budget and Fiscal Affairs Committee

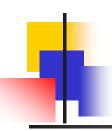
March 20, 2007



- This is a planning scenario for analysis. The purpose is to highlight the financial issues facing us over the next few years and review the options.
- This is NOT an outline of next year's budget.
- The Mayor will propose a balanced budget for FY2008!



- Base period is FY2007; Five year period begins in FY2008 and ends with FY2012. All figures are in thousands.
- Expenditures are projected in these categories: known legal mandates, staffing for new facilities, and contractual escalators.
- Employee compensation and benefits projected by Finance and Administration and Human Resources Departments.
- Capital outlay and equipment acquisition are not included.
 Debt service assumes an average of \$136 million per year level of capital improvement.



Summary from Three Years Ago

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Balance	78,209	83,027	84,754	78,000	78,000	78,000	78,000
Property Tax Revenues	636,028	658,535	674,998	701,998	730,078	759,281	789,653
Sales Tax	322,538	337,839	363,628	381,264	391,596	406,555	424,281
Franchise Revenue	76,605	161,315	160,668	161,086	161,548	162,054	162,605
Other Revenues	315,568	233,039	234,725	236,513	238,403	240,337	242,314
Total Revenues	1,350,739	1,390,728	1,434,019	1,480,861	1,521,626	1,568,227	1,618,852
Total Operating Expenditures	1,199,766	1,230,801	1,387,101	1,506,827	1,558,877	1,592,421	1,616,826
Transfers for Debt Service	178,000	165,000	191,302	213,461	242,415	252,112	262,196
Total Expenditures	1,377,766	1,395,801	1,578,403	1,720,288	1,801,292	1,844,532	1,879,022
Net	(27,027)	(5,073)	(144,384)	(239,427)	(279,666)	(276,305)	(260, 170)
Transfers from Other Funds	34,440	6,800	2,000	2,000	2,000	2,000	2,000
Change in reserves	(2,595)						
The Gap FY05			(137,630)	(137,630)	(137,630)	(137,630)	(137,630)
The Gap FY06				(101,797)	(101,797)	(101,797)	(101,797)
The Gap FY07					(40,240)	(36,878)	(20,744)
Ending Fund Polongo	92.027	01 7F1	79.000	79.000	79.000	79.000	79.000
Ending Fund Balance	83,027	84,754	78,000	78,000	78,000	78,000	78,000



Last Year's Summary

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Beginning Balance	88,216	120,042	130,279	123,726	109,726	109,726
Property Tax Revenues	671,294	692,943	719,754	746,708	774,779	805,770
Sales Tax	370,583	404,298	428,948	458,159	490,414	526,018
Franchise Revenue	162,263	174,077	181,813	182,120	182,974	183,904
Other Revenues	245,936	248,886	245,298	248,538	251,942	255,514
Total Revenues	1,450,076	1,520,204	1,575,813	1,635,525	1,700,109	1,771,207
Total Operating Expenditures	1,279,217	1,373,967	1,435,366	1,496,028	1,573,385	1,610,436
Transfers for Debt Service	188,000	195,000	209,000	216,800	225,000	234,000
Total Expenditures	1,467,217	1,568,967	1,644,366	1,712,828	1,798,385	1,844,436
Net Revenues Less Expenditures	(17,141)	(48,763)	(68,553)	(77,303)	(98,276)	(73,229)
Proceeds of Pension Bonds	48,599	59,000	62,000	20,000	10,000	0
Transfers and Other	1,028	0	0	0	0	0
Change in reserves/ Fund Balance Drawdown	(660)	0	6,553	14,000	0	0
Net Activity (The Gap)	31,826	10,237	0	(43,303)	(88,276)	(73,229)
Ending Fund Balance	120,042	130,279	123,726	109,726	109,726	109,726



Progress Made Over Three Years

- Strong management of health care cost
- Implemented debt restructuring
- Changes in pension plans and financing
- Revision and extension of Police contract
- Restructuring and adoption of affordable CIP
- Fire Collective Bargaining Agreement
- Property tax rate reduction
- New electric franchise agreement
- Renegotiated GLO electricity contract
- Increased audit of Franchise Agreements

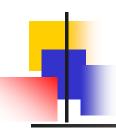


Property tax revenues—

- Based on the Harris County Appraisal District's estimates of value, using the average between the low and mid-range projection for FY2008, 5.2% and 4.25% thru FY2012.
- Net of tax increment zone payments and including delinquent collections, this is a 5.2% increase in revenues for FY2008.

Industrial assessments—

 Trends indicate property values and inventory levels are consistent with FY2007 estimate.



- Sales tax revenues—
 - Growth estimates from Dr. Barton Smith's December 2006 report.
- Franchise Revenues—
 - Electric franchise revenues based on 1.5% growth in KWH.
 - Telephone franchise revenues assumes no growth in FY2008 thru FY2012.
 - Gas franchise revenues assumes 1% growth.
 - Other franchise revenues assumes 2.7% growth.



- Intergovernmental Revenues
 - Assumes \$27.6 million Metro reimbursement under the General Mobility Agreement with Metro. (Same as FY2007)
- Licenses & Permits
 - Assumes 2% growth.



- Charges for Services
 - Includes ambulance revenues, platting fees, parking fees.
 - Assumes ambulance fees increase to \$26 million (3.1%), and the other charges for services at 2.5% growth.
- Fines & Forfeits
 - Assumes 2% growth in Municipal Courts Fines & Forfeits.



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Summary	Actual	Estimate	Projection	Projection	Projection	Projection	Projection	Projection
Property Tax	671,294	705,952	743,000	781,396	814,611	849,226	885,382	922,925
Sales Tax	370,583	422,598	452,855	478,260	509,682	546,328	583,533	621,696
Franchise Fees	162,263	186,507	181,425	183,561	185,733	187,943	190,190	192,476
Other revenue	245,936	238,799	257,081	252,528	258,309	264,535	271,626	278,926
Total Revenues	1,450,076	1,553,856	1,634,361	1,695,745	1,768,336	1,848,032	1,930,731	2,016,023
Percentage Increase		7.16%	5.18%	3.76%	4.28%	4.51%	4.47%	4.42%
Revenue Increase		103,780	80,505	61,384	72,590	79,697	82,699	85,292



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
	Actual	Estimate	Projection	Projection	Projection	Projection	Projection	Projection
Property Tax	671,294	705,952	743,000	781,396	814,611	849,226	885,382	922,925
Industrial Assessments	14,635	14,314	14,275	14,275	14,275	14,275	14,275	14,275
Sales Tax	370,583	422,598	452,855	478,260	509,682	546,328	583,533	621,696
Other Taxes (Mixed Bev & Bingo)	8,000	9,279	9,450	9,980	10,636	11,401	12,177	12,973
Electric Franchise	77,760	97,274	99,638	101,133	102,650	104,189	105,752	107,338
Telephone Franchise	49,714	50,167	45,600	45,600	45,600	45,600	45,600	45,600
Gas Franchise	18,520	21,866	19,739	19,936	20,136	20,337	20,540	20,746
Other Franchise	16,269	17,200	16,448	16,892	17,348	17,817	18,298	18,792
Licenses & Permits	17,692	18,086	17,353	17,700	18,054	18,415	18,783	19,159
Intergovernmental	19,571	26,989	43,776	34,928	35,976	37,055	38,167	39,312
Oth Chg Serv	39,856	41,115	44,688	45,805	46,950	48,124	49,327	50,560
Direct Interfund	61,233	39,505	44,749	46,482	48,282	50,152	52,094	54,111
Indirect Interfund	11,031	14,895	14,198	14,748	15,319	15,912	16,528	17,168
Muni Courts Fines & Forfeits	48,827	45,319	43,326	44,193	45,076	45,978	46,897	47,835
Other Fines & Forfeits	2,424	3,681	2,344	2,367	2,391	2,415	2,439	2,464
Interest	6,414	8,600	10,395	9,397	8,570	7,902	7,902	7,902
Miscellanous	16,253	17,016	12,527	12,652	12,779	12,907	13,036	13,166
Total Revenue	1,450,076	1,553,856	1,634,361	1,695,745	1,768,336	1,848,032	1,930,731	2,016,023
Percentage Increase		7.16%	5.18%	3.76%	4.28%	4.51%	4.47%	4.42%



Increased Costs

- Civilian pay increase
- Increase in employee health benefit insurance cost
 - (FY2008 + 5.3%, FY2009 + 15.42%, FY2010 +7%, FY2011 + 6%, FY2012+5%)
- Operating costs for new facilities
- Limited partnership annexations offset by increased revenue



Contract Escalators

- Solid Waste disposal contracts
- Case Management contracts
- ESRI contract
- PWE multiple small contracts
- Zoo contract



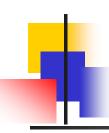
Police and Fire

- Police pension and pay increases
- Net increase of 104 police officers each year, after attrition.
 - Assumes 6 classes in FY2008, 4 classes in each year thereafter.
 This would bring us to 5,395 officers in FY2012
- Assumes a total of \$45 million in HPD overtime from all sources in FY2008, including \$13 million in grant funding not yet received
- Fire pay increases, and step pay increases based on collective bargaining agreement
- Fire pension increase
- New Fire stations
 - Stations 105, 24, 84, 8, 37, 90, and 95



Expenditures

	FY2008	FY2009	FY2010	FY2011	FY2012
Total Prior Year Operating Budget	1,468,420	1,536,522	1,629,656	1,684,459	1,731,353
Health Benefits	7,227	22,147	11,604	10,643	9,401
Civilian Pay Increases (2% in FY08, 2.5%)	5,441	5,609	5,782	5,960	6,144
Solid Waste	(2,379)	50	53	56	59
Operating Costs of New Facilities (Other than Fire)	2,892	3,840	3,815	1,821	
Zoo Contract	66	139	141	145	134
Contract Escalation & Cost Increases	1,724	1,420	771	776	805
Electricity	0	0	(1,485)	0	0
Limited Purpose Annexations (Assumes Sales Tax Growth Rate only)	1,952	1,422	1,658	1,683	1,727
Legislative Related Costs	(500)	500	(500)	500	(500)
Elections	2,400	(2,400)	2,400	(2,400)	2,400
Contingency Reserve (FY07 \$7,361,247)	(1,361)				
Claims and Judgements	1,000				
Other General Government	1,300				
Police Department	27,071	22,608	16,211	15,514	19,566
Fire Department	21,042	38,199	14,553	12,196	9,451
Other	227	(400)	(200)		
Total Operating Expenditures	1,536,522	1,629,656	1,684,459	1,731,353	1,780,541
Percentage Increase In Operating Expenditures	4.32%	6.06%	3.36%	2.78%	2.84%
Increase In Operating Expenditures	63,639	93,134	54,803	46,894	49,187



Debt Service

(Dollars in thousands)		FY2006	FY2007	FY2008	FY2009		FY2010		FY2011		FY2012
Assessed Value (Truth-In-Taxation)	\$ 10	06,025,030	\$ 112,523,410	\$ 120,065,142	\$ 125,167,911	\$ 1	30,487,547	\$ 1	136,033,267	\$ 14	41,814,681
Growth Rate Assumed	\perp	3.92%	3.75%	6.70%	4.25%		4.25%		4.25%		4.25%
Tax Rate for Debt Service	+	0.18391	0.18573	0.19000	0.19000		0.19000		0.19000		0.19000
Tax Rate for Operations		0.46359	0.45927	0.45500	0.45500		0.45500		0.45500		0.45500
Total Tax Rate		0.64750	0.64500	0.64500	0.64500		0.64500		0.64500		0.64500
Tax Revenue for Debt Service	\$	195,000	\$ 209,000	\$ 228,100	\$ 237,800	\$	247,900	\$	258,500	\$	269,400
Tax Revenue for Operations		491,521	516,786	546,296	569,514		593,718		618,951		645,257
Variation from Certified Roll, including P&I		19,431	14,214	7,000	7,298		7,608		7,931		8,268
Total Tax Revenue	\$	705,952	\$ 740,000	\$ 781,396	\$ 814,611	\$	849,226	\$	885,382	\$	922,925
TaxRate		0.6475	0.6450	0.6450	0.6450		0.6450		0.6450		0.6450
Increase in Debt Service	\$	7,000	\$ 14,000	\$ 19,100	\$ 9,700	\$	10,100	\$	10,600	\$	10,900
Increase (Decrease) in Tax Revenue for Operations	\$	27,658	\$ 20,048	\$ 22,296	\$ 23,515	\$	24,514	\$	25,556	\$	26,642
Total Increase in Property Tax Revenue	\$	34,658	\$ 34,048	\$ 41,396	\$ 33,215	\$	34,614	\$	36,156	\$	37,542

Summary

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Beginning Balance	171,794	190,222	175,222	160,222	148,222	138,222
Property Tax Revenues	743,000	781,396	814,611	849,226	885,382	922,925
Sales Tax	452,855	478,260	509,682	546,328	583,533	621,696
Franchise Revenue	181,425	183,561	185,733	187,943	190,190	192,476
Other Revenues	257,081	252,528	258,309	264,535	271,626	278,926
Total Revenues	1,634,361	1,695,745	1,768,336	1,848,032	1,930,731	2,016,023
Total Operating Expenditures	1,472,883	1,536,522	1,629,656	1,684,445	1,731,297	1,780,421
Transfers for Debt Service	209,000	228,100	237,800	247,900	258,500	269,400
Total Expenditures	1,681,883	1,764,622	1,867,456	1,932,345	1,989,797	2,049,821
Net Revenues Less Expenditures	(47,522)	(68,877)	(99,121)	(84,313)	(59,065)	(33,798)
Proceeds of Pension Bonds	63,000	35,000	20,000	10,000	0	0
Transfers, Sales of Assets	2,950	0	0	0	0	0
Change in reserves/ Fund Balance Drawdown	(18,428)	15,000	15,000	12,000	10,000	8,000
Net Activity (The Gap)	0	(18,877)	(64,121)	(62,313)	(49,065)	(25,798)
Ending Fund Balance	190,222	175,222	160,222	148,222	138,222	130,222



Costs (Potential Changes Not Included)

- Municipal Pension is assumed at the current rate of 15.8% of payroll. If the City were to pay the statutory rate, then civilian payroll would be decreased in the general fund by 8.8% which could be accomplished by termination of 400 municipal employees, based on the average compensation of \$36,000
- Recommendations of Solid Waste Task Force



Strategies For Achieving Balance

- Strategies Implemented or Underway
 - ➤ Identify cost-cutting and productivity improvements within departments
 - Maintain the capital improvement plan, continue to keep it affordable
 - Explore refinancing opportunities of the general obligation debt, reducing the amount of increase for the next few years
 - Management of health care costs
 - Houston style zero base review
 - Franchise fee potential revenue increase